

ZIS Institutions and Inclusive Asset-building Policy Agenda

Davy Hendri

Faculty of Sharia The State Islamic Institute Imam Bonjol Padang, Indonesia, davy2_hendri1@yahoo.com

Abstract

Objective – This study will try to describe inclusive asset building (further abbreviated as *IAB*) concept which proposed by Michael Sherreden and its implementation as the main agenda of ZIS institutions activities. Anti-poverty proposals from various parties include government agencies, private and public, generally focusing on income subsidy policy to encourage public demand over the minimum edge (borderline poverty) of live well.

Method - Library research is applied since this paper relies on secondary data by thoroughly reviewing the most relevant literature. This will be elaborated starting from the introduction of mechanisms and IAB programs in the main activities of ZIS institutions. In addition, several prerequisites adjustments and strengthening either in terms of institutional, organizational capacity and management needs to be conducted by the ZIS institutions so that this study will achieve as expected.

Results -.Combination of income support with the asset accumulation such as subsidies saving for the poor will be more long-term. Which is expected to help out the poor from socio-economic alienation. Through the implementation of this concept, ZIS institutions have a chance to heighten the leverage of their role in poverty alleviation.

Conclusion – All resources, either internal and external that have been built by LAZ during these days, is a valuable capital to initiate the paradigm shift. Also, the benefits of institutional characteristics and closely relationship with the clients (mustahik) could be additional notes

Keywords : Poverty, Income Subsidy, Inclusive Asset

Abstrak

Tujuan - Penelitian ini mencoba mendeskripsikan konsep pembangunan aset inklusif (selanjutnya disingkat *IAB*) yang diusulkan oleh Michael Sherreden dan implementasinya sebagai agenda utama kegiatan lembaga ZIS. Konsep ini ditawarkan sebagai alternatif program anti-kemiskinan dari berbagai pihak termasuk instansi pemerintah, swasta dan masyarakat, yang pada umumnya berfokus pada kebijakan subsidi penghasilan untuk mendorong permintaan publik sehingga berada di atas standar minimum hidup dengan baik (garis batas kemiskinan).

Metode - Tulisan ini menggunakan studi kepustakaan yang bersumber pada data sekunder dan literatur yang paling relevan. Konsep pembangunan aset inklusif meliputi pengenalan mekanisme dan aplikasi program *IAB* dalam kegiatan utama lembaga ZIS, penyesuaian prasyarat, dan penguatan kapasitas baik dalam hal kelembagaan, organisasi dan manajemen perlu dilakukan oleh lembaga ZIS. Dengan kajian literatur tersebut tujuan penelitian ini akan tercapai.

Hasil - Kombinasi dukungan pendapatan dengan akumulasi aset seperti subsidi tabungan bagi masyarakat miskin akan lebih berdampak dalam jangka panjang yang diharapkan dapat membantu mengeluarkan masyarakat miskin dari keterasingan sosial-ekonomi. Melalui penerapan konsep *IAB*, lembaga-lembaga ZIS memiliki kesempatan untuk meningkatkan pengaruh dari peran mereka dalam pengentasan kemiskinan.

Kesimpulan - Semua sumber daya, baik internal maupun eksternal yang telah dibangun oleh LAZ selama ini adalah modal berharga untuk memulai pergeseran paradigma program dari berbasis *charity* menjadi berbasis *IAB*. Selain itu, nilai plus dari karakteristik kelembagaan dan hubungan erat dengan klien (mustahik) bisa menjadi catatan tambahan.

Keywords : Kemiskinan, Subsidi Pendapatan, Inclusive Asset

1. Introduction

Anti-poverty studies from various parties including government agencies, private and public, generally focusing on income subsidy policy to encourage public demand over the minimum edge of live well (borderline poverty). This policy is criticized because contains many weaknesses. *First*, income subsidy inherent with the diverse distortion variants, both errors of exclusion and errors of inclusion¹². *Second*, income subsidy tend to give various forms of trade-off¹³. It is often occurred that subsidy for the poor means at once disarming shyness and their creativity.

New version of anti-poverty studies brought by Sherraden started with two observations. *First*, governments in developed countries have used the policy either directly or indirectly through the taxation system from a long time ago, which will subsidize or encourage the public to acquire a variety of assets¹⁴. These assets such as savings (money), home ownership, retirement funds, education (human capital) or business capital.

However, the policy was not without its drawbacks. Income subsidy policies in the context of welfare state often does not reach the poorest communities. Below the income threshold, the poor can not pay taxes. As a consequence (rule of the game) they also can not have access to a tax subsidy. Also, some systems still have poverty trap. If the working poor start paying tax obligations, sometimes the amount of taxes exceeds the marginal value of their salary income¹⁵.

Second, based on empirical studies, many parties have received a solid validation that poor people can do savings. They will do so even with a variety forms and sacrifice

¹²Terms of errors of exclusion and inclusion is used in the politic economics study by the theme of subsidy from government to the citizens in various forms. For details, read *John Hoddinott (1999), Technical guide NO. 9 : Targeting: Principles and Practice, IFPRI, Washington DC.*

¹³Many sociology studies, found deeper facts related to the social behavioural changes of citizens after BLT. The negative changes is more than just personal sides but include personal interaction patterns in the society. Further this fact become basis of evolution of the income subsidy such as (Bantuan Lansung Tunai/ cash) to BLB (Bantuan Lansung Bersyarat)

¹⁴This policy especially supported by the welfare-state countries with the main idea income support. Predominantly in Europe, this policy fore with the political support from the social-democratic government. France, UK and German also Scandinavian countries are countries with predominantly labor party in the government and parliament, as the pioneer of welfare-state concept. Government sponsored the income support by tax. So that the individual tax rate income that have significant numbers become dilemma apart.

¹⁵This could happen if the public political support decreased (median voters) for the low income community.

value that will never imagined by the policy maker or rich people. Indeed that savings increase due to increasing income, but there is evidence that the saving rate is higher among the poor.

Based on this background, Sherraden believe that IAB policy (social investment) is the effective weapon to fight poverty and social alienation. This study is mainly focuses on various forms of the process of asset accumulation for the poor. So, its not only an income support at the moment and is an emergency.

Subsidies (money) are not insignificant, but it is not enough. As long as poverty exists, then income support and social-insurance will continue be the public necessary. However, there should be a long term vision to help out poor people from poverty through assets and income growth. This study regarding asset building was never meant neither to replace the income support policy nor to abolish social-insurance.¹⁶ In contrast, asset building will go hand in hand with both of these kinds of policy. The combination of income support and the asset accumulation such as subsidies saving for the poor will break the chain of poverty cycle (vicious circle) through inter-generational asset transfer.

In the Indonesian context, numbers, duration and the period of implementation of subsidy offered by the government are also very dependent to the political and bureaucratic weaknesses¹⁷. Therefore, they needed an alternative institution to cry out this issue. The question is “is it possible for ZIS institutions to scheduled these issues?.” Furthermore, “how is the mechanism of adoption and implementation of the IAB concept by ZIS institutions? What kind of existing conditions needs to be prepared to execute this agenda?.” Therefore, it is necessary to conduct synergy and cooperation between the various stakeholders in response to the implementation of this new paradigm.

¹⁶In USA, with the liberal economic system, welfare issue for the poor, occurred in the issues of social insurance. This issue become the immortal fight between the more egaliter democratic party with the pro-business republic party. The difference with the Europeans, is in the intervention. Europe intervent in the upstream then US intervent in the downstream.

¹⁷ This statement reflected the status of agrarian reform agenda "withier before it develops". The basic idea of agrarian reform aims to redistribute unproductive land owned by the state to the poor farmers. Major agenda mandated by the MPR RI No.. IX/2001 on Agrarian Reform and Natural resource management, sustainability hitherto invisible.

This study is intended to offer a model that can provide a meeting point between the urgent need for IAB implementation and opportunity for ZIS institutions to be the main actor in the market with the description of the strategy to make it run properly based on existing literature review. Next section, part two, will review the summary of theory and practice of the IAB from some past studies and experiences of the experts around the world. Third section will discuss the concepts and instruments of poverty alleviation from an Islamic perspective. The fourth section, will try to connect the adoption of IAB concept as the recent main agenda of ZIS institutions, through case studies on the role and LAZ mechanisms actions for educational investments (*Child Fund Account*). Meanwhile, the last section will conclude the study with some recommendations and suggestions for further research related to the expansion of the model and the mechanism of LAZ actions in this topic.

2. Methodology

This research employed library research method since this paper relies on secondary data by thoroughly reviewing the most relevant literature. This will be elaborated starting from the introduction of mechanisms and IAB programs in the main activities of ZIS institutions. In addition, several prerequisites adjustments and strengthening either in terms of institutional, organizational capacity and management needs to be conducted by the ZIS institutions so that this study will achieve as expected.

2.1 Asset

2.1.1. Inclusive Asset Building

Asset Building enables poor people and their families to save small amounts of money, for the purpose of asset accumulation and use the saving for a specific purpose. The most basic goals is to have a clear needs for every poor family, cash ownership on hand – precautionary savings- as a buffer from the inevitable fluctuations regarding health matters and other emergencies situation. In the very poor countries – with high

population the income is less than US \$ 1,00 or US \$ 2,00 per day per capita – this is the most important needs. Here, the government does not have a wide and not able to reach them. In rich countries with advanced social support system, revenue and universal health benefits transfers can help to reduce but almost certainly could not eliminate the importance of saving for precautionary.

In contrast with the concept of microfinance¹⁸ which is also developed as a model of poverty alleviation in many countries, asset building concept is generally not offer credit. This concept is in the form of saving with financial incentives design that made carefully to stimulate and encourage poor people's interest in saving by the scheme Individual Development Accounts (IDA). In this case, the poor savers (furthermore referred as the client) committed to open a bank account then save a small amount, but the commitment was not only up to this point.

Client must also commit to set aside and save their income regularly. Duration of saving could be daily, weekly or monthly depend on the client's current income, for a period of time. From the small saving from the poor regularly, incentive program in the form of subsidy savings from LAZ, private sponsor and government will be granted as matching funds with ratios 1:1, 2:1 and so on. Means the same number of multiple of the amount deposited by the client or even higher (up to the limits set by the rules of the program) will be transferred by LAZ to the client's account.

During the accumulation period, clients have access to the savings that come from their savings but not for matching funds. In the end, client can withdraw the money saved plus the matching funds for the purpose of expenditure (capital) which is allowed by the program. This new small amount of wealth may be used for funding home purchase, build small business or pay school tuition for their children. U.S and Canada, conducted IDA practice by limiting the expenditure of accumulated capital, solely for educational

¹⁸Microfinance also has become the icon for poverty alleviation programs around the world. Even in 2005 has been proclaimed as the International Year of Microcredit by the United Nations secretary general, Kofi Annan, <http://www.un.org/events/microcredit.htm>

and trainings or commonly known as ILA (*Individual Learning Accounts*). Meanwhile another variation known in the U.K is the Child Trust Fund (*baby bonds*)¹⁹. In this case, programs begins with the initial deposit amount by the parents since newborn baby. This routine deposit is further will earn interest and grow as well as the baby growth. Longer time period is set for the purpose to equipped the children with a significant amount of accumulated assets when its transferred to them at the future (inter-generational asset building).

Inclusiveness on asset building should have an objectives so that IDA (1) makes a person, distinguished from the income, age, gender and others, have a savings account. (2) begins since birth and valid all time (3) provide equal matching funds for the poor, (4) reach a sufficient level of accumulated assets for certain purposes.

Therefore introduction of the saving model into this programs, requires any obstacles to have a bank account, nullified and expand access for everyone (Account for All). Beside having the reward (incentives) elements this program also have elements of punishment. In this case, any withdrawal in the amount of client-owned savings without replacement in the future, matching funds from the private sector or the government in earlier accounts would be reduced by the amount drawn as well (or based on agreement). Thus, client will think twice to do an early withdrawal unless they have a very goos reason- for example an emergency.

The structure of the program that provides incentives for the purpose of precaution saving or long term with this smart way, will not preclude the client funds usage and also will not make the client leave nothing for the next generation. Therefore, the term inclusive asset building (IAB) will not be just a catchy name to sell an idea. But more

¹⁹Singapore, Taiwan and South Korea are among the countries in Asia that have adopted the concept of the Child Trust Fund into their national economic policies. Even with demographic reasons, the low birth rate as labor shortages, Singapore developed three types of schemes Child Development Account (CDA) increase progressively as the number of children in the family. For example, the fifth child will receive funding assistance from the government totaling S \$ 18,000 in the account of his own that can be withdrawn at the time of entering junior high school. More complete read on: Han, Chang-Keun (2009), "Inclusive Asset-building Policy in Korea, Singapore, and Taiwan: Trends and Policy Implications".

than that, this program emphasizes behavioural change and economic asset accumulation that have benefit for the community as well as client as individual.

2.1.2. Asset Externality

The basic idea of Sherraden is actually based on two main ideas. *First*, the theory of household saving which is the standard economic theory study. *Second*, which is the key to the whole argument, based on the positive welfare effects that will be derived uniquely from the capital stock owned by the household (stock, able to generate revenue) and not from the income flow that will only spent for consumption purposes.

“What is the meaning of the effects?” Sherraden explained nine positive effects of assets as follows:

- *Assets improve the household stability.*

In the first example, they acts a savings to protect the income shocks that might throw people into poverty income. Also, they reduce liquidity risk by opening access to credit. This effect tends to stabilize incomes and households (including the poor) with more stable incomes tend to be better than those with equal income but sharply fluctuative.

- *Assets created a future orientation.*

Orientation to the future begins with the assets, which in returns become opportunities, then would quickly be internalized. This process is the future possibility construction. Some assets creates expectations, and expectations leads to future-oriented behavior as opposed to a strategy oriented to survival at this time.

- *Assets promote the development of human resources and other assets.*

By some way, people will start to think about improving themselves. If they have a physical assets, they will take care of it and try to raise its value. The asset also has a rate of return that can create new assets (eg, investment s in education and training) or provide a greater revenue stream (eg retirement).

- *Asset allowed to focus and have specialization.*

This bring us back to the basic definition of specialization and segregation of duties as the the essence of participation in an organized medium of social economy and the incoming logic of the poor dysfunctional behavior. Such behavior will change by the end of alienation (exclusivity) and with focus and specialization.

- *Asset provide foundation to risk taking ability*

Sherraden refers to the portfolio theory to show that through diversification or with more assets, the more its ability to take risks with safety net. These also applies to entrepreneurship. It makes the policy makers aware in almost among OECD countries, to design a program to promote the establishment of small business as part of the active labor market policy.

- *Assets increase personal efficacy.*

With popular terms, they become a source of empowerment. The point is having assets allow people to get out from social dependency and “stand on its own feet” in the social and economic terms.

- *Assets increase social influence.*

Sherraden refers to the amount of research funds and thought, to build relationship between household wealth and social influence. It is not only related for being rich, this more concerns to the acquisition of peer recognition.

- *Assets increase political participation.*

In this context, “merge into the system” means participating in the formal economy, paying taxes and play a full responsibility as a ciztizen.

- *Assets improve the family welfare.*

Children raised in households with sufficient assets to survive in facing future challenges with better human resources quality- starting with better nutrition, health and ending with acculturation and education. Sherraden emphasize to the existence of

connection between generations through the transmission of physical assets that can not be provided by income and consumption.

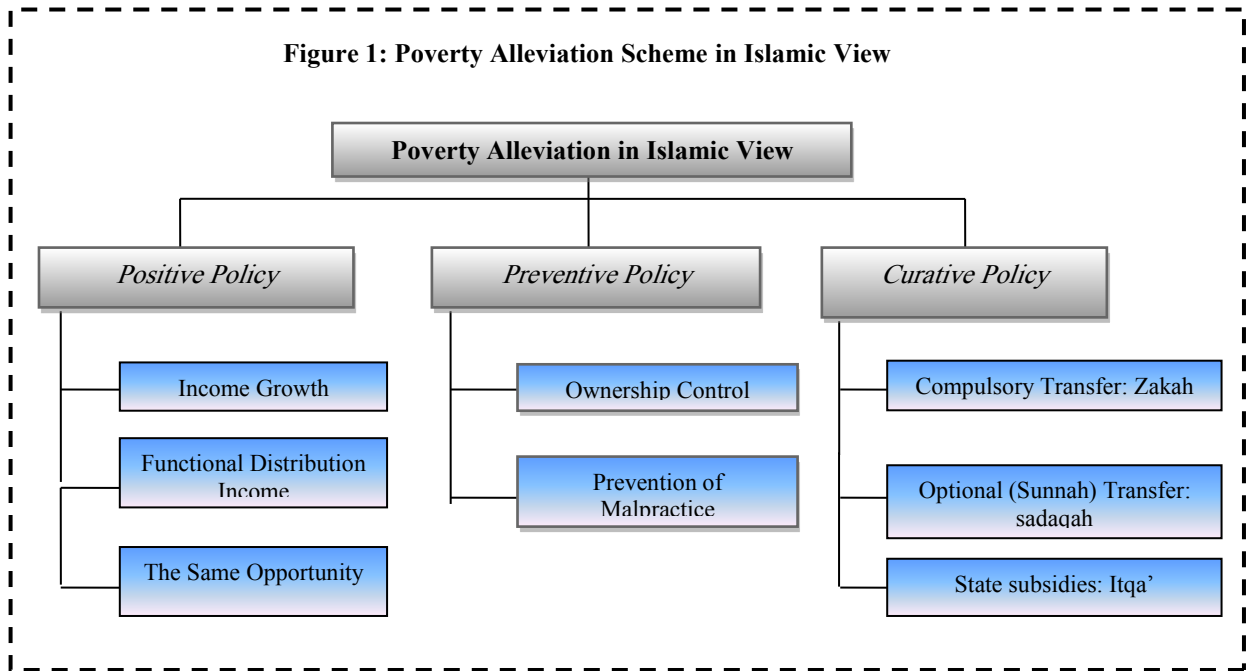
2.2. Islam and Poverty Alleviation

Islamic principles regarding poverty alleviation is based on the Islamic view of social justice and faith in Allah SWT. Islam defines poverty as the condition which an individual does not meet one of the five basic requirements of life: (a) Religion (b) Physical (c) Intelligence or Knowledge (d) Descendants and (e) Wealth.

Islamic economics identify individual differences between people as each person is endowed with various types and ability level. So, although the individual is given an equal opportunity, economic status of the two individuals may be unequal. Therefore, poverty can not solved only by income redistribution or ensure equitable opportunities for all. Islamic approach to poverty alleviation would ideally involve a holistic approach.

2.2.1. Strategy of Poverty Alleviation

Islamic approach involves three different sets of measures: (1) positive action, (2) preventive measures, and (3) improvement measures, as shown in the figure below:



Sources : Abdul, Hasan, M. Sadeq (1995), "Awqaf, perpetual charity and poverty alleviation"

a) Positive Actions

Islam involves different positive action in reducing poverty : (a) income growth, (b) functional distribution of income, and (c) equal opportunities.

a. Income Growth

Islam emphasizes the consumption behaviour at the moderate level per individual which will produce the required savings for individuals and the economy.

b. Functional Distribution of Income

Functional distribution of income refers to the income distribution among all the factors of production. Islamic norms ensure that the price factor is based on justice and fairness. Islamic approach recommends steps for equitable distribution of income among the factors of production such as profit sharing. Islam prohibits usury (*Riba*) and emphasizes profit sharing based on ratio, not based on fixed interest rate, among the stakeholders.

c. Equal Opportunities

There are no advantages and privileges granted to a muslim over other muslim. This is the foundation of faith in Islam in which the variety contexts of Muslim life, from

worship in a special term to the *muamalah* activities in general. Even in the contexts of citizenship, all citizens are equal under the law, including non-Muslim though.

b) Preventive Actions

Islamic economics also ensure preventive actions are taken so that wealth is not concentrated in a particular group in populations, such as control over ownership and prevention of malpractice.

a. Control over ownership

Everything belongs to Allah SWT. Humans only have a secondary title, as trustee for the use of resources based on certain terms and conditions. In Islamic economics, resources is identified as the public interest, such as natural resources and can not be privately owned. Government must organizes these resources so that they are accessible to all sections of the population when necessary. However, islam allows private ownership in businesses and industries based on the Islamic ethics and norm.

b. Prevention of Malpractices

Islam identifies and prohibit malpractices that lead to economic disparities such as gambling, hoarding, fraud, bribery and interest or Riba. In this modern era, malpractice appeared in different form. If all these malpractices including corporate fraud and other white collar crimes prevented, inequality of income distribution can be avoided.

c) Corrective Actions

Corrective actions encourage the transfer of wealth, so that wealth is not concentrated among the rich through compulsory transfer (*zakat*), *sunnah* transfer (charity), and government responsibility (law enforcement and basic needs).

a. Compulsory Transfer (zakat)

Islam stated *zakat* as an obligatory for all Muslim in “capable” conditions. Zakat is a unique tool of poverty alleviation because wealth are transferred from the rich to the needy people as Islam identified *Zakat* as the five pillars of Islam.

b. *Sunnah* Transfer (Charity)

Islam encourages charitable and virtuous action in the form of morally wealth transfer, by *shadaqah* and *infaq*. In the case where there is a strong economic disparity or poverty, those transfers will be mandatory.

c. *Itqa'* (Government Subsidies)

In the Islamic system, government is also obliged to transfer financial assistance (subsidies, also known in the terminology as *Itqa'*) for poor citizens. This is conducted by allocating a certain amount of public funds in *Bayt al-Maal* temporarily²⁰.

2.3. Instrument of Poverty Alleviation

In the Islamic system and practice that has been done long time ago, the instruments and characteristics are presented in the summary table below.

Table 1: Comparison of Multiple Poverty Alleviation Instrument

	Iqta'	Zakat	Infaq-Shadaqah	Waqaf
Compulsory/ Voluntary	Compulsory	Compulsory	Voluntary	Voluntary
Ratio	Depend on the Government or parliament	Fixed and rule existed	Unlimited	Unlimited
Source	Ghanimah, ushr tijarah, fa'i, Kharaj and jizyah (collected by government through Bayt al-mal)	Based on fiqh regulation	Anyone	Anyone
Recipients	Anyone	Who and what for is regulated in fiqh	Able for anybody and for any purpose	Able for anybody and for any purpose
Expenditure	Issued anytime and not invested	Once a year during Ramadhan and not invested	Issued anytime and not invested	Issued anytime and invested in social and economic assets
Management and documentation	Recorded in the government budget	Usually do not need management (traditional) and documentation	Usually do not need management and documentation	Need a waqif and documentation
Shadaqah Jariyah	Unsustainable in general	Unsustainable in general	Unsustainable in general	Sustainable

Source: National Awqaf Foundation of South Africa-Questions and Answer, 2007 and modification

²⁰ Abu Bakr Muhammad b. Muhammad al-Balatumusi in his Tahrir al-Maqal categorize iqta' or the government subsidy into 2 types are iqta' of appropriation (al-Tamlík) and iqta' of usufruct (al-istighlal). See details in Abul Azim Islahi (2006), Works on public finance by the Sixteenth century Muslim scholars

3. Result

3.1. Inclusive Assset-Building and the Role of LAZ

Zakat and its professionally management today's increasingly showing encouraging development. Various existing infrastructure and superstructure has made a paradigm shift of *zakat* and its management, from traditional to modern. Even in the terms of fund rising, advances in technology has also been adopted as an alternative model by some large²¹.

But in terms of the magnitude mission to sympathize *mustahik*, especially the poor muslims, is a major challenge that remains unanswered until now. The existing LAZ predominantly has not been making the poverty alleviation issues as the icon of their work program. Even if there is, this issue is only a sideline agenda of a snapshot of their overall activity. Various internal and external rational is still an obstacles for a paradigm shift in the elements of ultimate goal of the LAZ existence.

In this section, although assessment offered is still premature to the present context, however, the research will discuss the basic concept of IAB as an adoption model in LAZ. Also further will offered the opportunities and mechanisms of LAZ cooperation with other institutions as partners in the IAB applications.

3.1.1 Organizational Framework

a) Organization

Poverty alleviation agenda is a long-term task that always occurred in the government over the regime. In this context, the allocation of subsidy funds is always increasing over the years. However in practice, poverty is a complex and complicated

²¹Some government-run LAZ, such BAZNAS and LAZ-run self-help society organizations such as the Zakat House, PKPU and LAZ Al-Azhar and others have applied the model of cooperation with the banking and telecommunications. So now, the ZIS muzakki have to pay through the ATM and SMS Banking

phenomenon²². Often each region has different characteristics and sources of poverty. Considering this factors, a LAZ-IAB²³ that are familiar with the work area and typology of society would be the form of organization.

b) Mission and Vision

LAZ-IAB vision should create a society free from poverty based on islamic principles regarding equality, social justice, and balanced growth by adopting the concept of IAB. LAZ-IAB mission must collect *zakat*, manage funding assistance from public and sponsors also organize it based on principles and objectives of the IAB concept.

c) Key Function

LAZ-IAB as a modification organization will do three main responsibilities :

- Collect and manage *zakat* funds from potential *zakat* donors either personal, institutions (corporate) as well as other charity fund management institutions.
- Being intermediary institution between government or private that will be put their matching funds to the client account (further referred *mustahik*). As well as mediator between Islamic banks party and the in the mechanisms of saving management and benefit monitoring in the future.
- Distribute *zakat* funds into *mustahik* account based mechanisms and objectives f IAB. Furthermore supervise the implementation of *zakat* and matching funds spending by the *mustahik*.

In the early stages, LAZ-IAB could initiate the application of IAB concept in their program by relying on ZIS funds that have been collected as the matching in *muzakki* savings. Parallel with the initiation taking process, also can be conducted an expose and wide intervery from the stakeholders into the program. In time, if the organization has matured, LAZ-IAB also can be involved in the management of government subsidies, *waqaf* funds and use them as a source of endowment funds.

²²World must renew definitions, perspectives and strategies related poverty. Thus the conclusion that emerged related to reports of the Department of Economic and Social Affairs, (2009), "Rethinking Poverty".

²³LAZ-IAB that the author means here is that LAZ has undergone a paradigm transformation in all sides. Included also in terms of readiness, capacity and capability of resource management and management in adopting the concept of IAB.

d) The Pilot-project IAB

Among the various schemes of IAB, LAZ could measure, compare and assess the compliance with the internal and external condition of LAZ situation. In the early stage, LAZ-IAB may conduct some familiar pilot projects to analyze the stakeholders' response (*muzakki* and *mustahik*) in different location such as education or training scholarships. In this case, LAZ-IAB will perform Child Development Fund projects (further referred as CDF).

CDF pilot project can be conducted through the following process steps:

1. Regional Selections

LAZ-IAB will focus on locations with high poverty density. Regional selections also depends on some other factors as follow: (1) the availability of educational infrastructure (2) the availability of general supporting infrastructure.

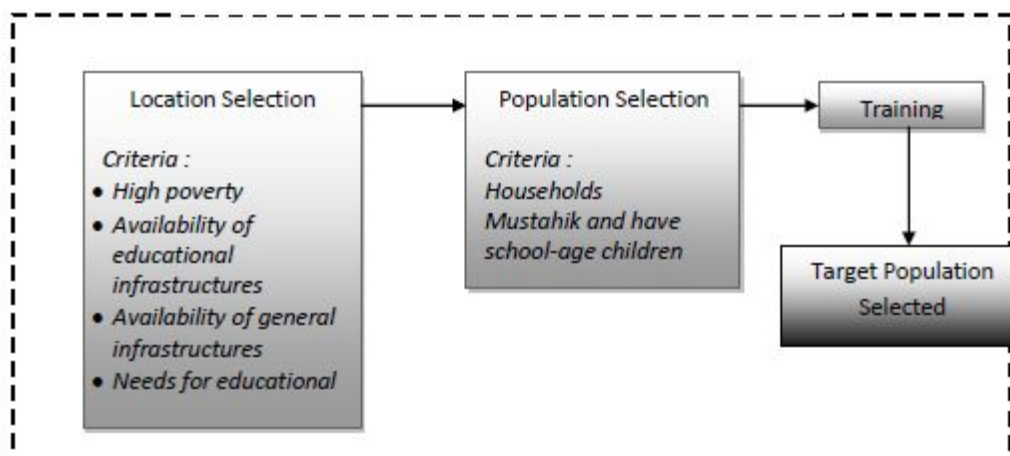
2. Population Selections

After selecting a particular area, LAZ-IAB will select targeting population. The population can be selected from eligible households to receive *zakat* funds (categorized as *mustahik*) as well as having school-age children.

3. Training

The target population will be given a training regarding products and transaction mechanisms with the Islamic banks industry (if the *mustahik* had never had a savings account). Only after successful completion of the training program, participants will be eligible to be involved in pilot-project.

Figure 2: Pilot Project Child Development Fund by LAZ-IAB



3.2. Financial Management Framework

3.2.1. Principal Fund Management

In the proposal model, in the early stages of LAZ-IAB will use the ZIS funds as the main sources of matching funds. ZIS funds will be used for the purpose of fulfill the basic needs and as an education investment fund. Also, LAZ-IAB will collect additional matching funds from government and private sponsor.

Once target is selected then LAZ-IAB will select Islamic banks which will be the partner institution in this pilot-project. In this case, mustahik asked to create CDF account by his name on the Islamic bank. After that, ZIS funds as matching funds will be added to the mustahik account with proportions and conditions that have been set beforehand²⁴.

Then at the settlement, LAZ-IAB will give permission to settle the matching funds according to the program mechanism. In the process of matching funds spending, LAZ-IAB must ensure that the funds had been used based on the objectives. Therefore starting from the school selection, registration and early schooling, LMZ-IAB involved in each process.

²⁴In accordance with the concept of IAB, the amount of regular savings, saving time and maturity period of withdrawal will be determined in accordance with the agreement between LAZ and the ability to *mustahik*.

3.2.2. Source of Funds

As mentioned previously LAZ-IAB will attract different sources of funds with different schemes. In principle, NGOs will not be involved in the fundraising that does not in line with Islamic banks norm. LAZ-IAB will raise funds from the following sources:

- ZIS contribution will be collected from personal muzakki and corporate or any other zakah funds management organization.
- Donations from institutional and other non-institutional sources
- In time, LAZ-IAB can invite the government (central and local) to allocate Iqta' funds as additional matching funds coverage program

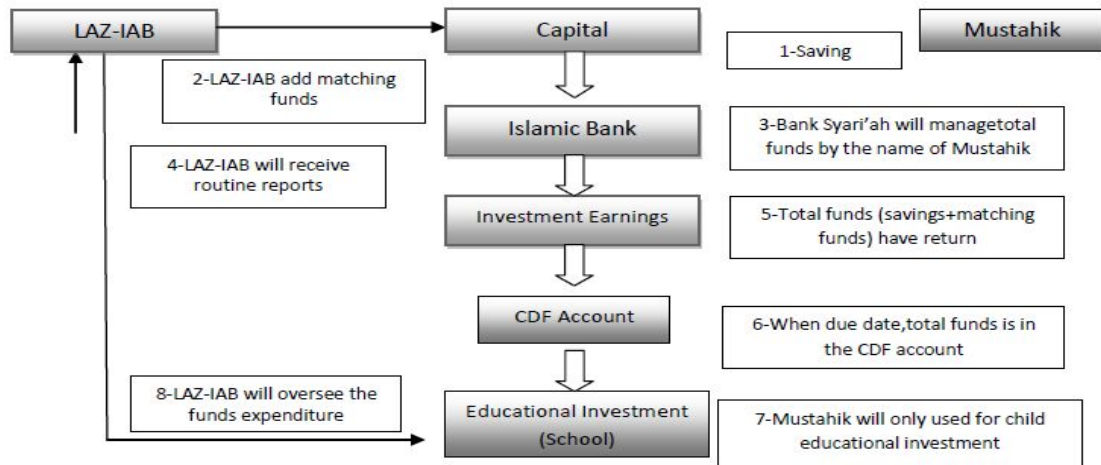
3.2.3. Funds Usage

Basic activities of LAZ-IAB are to provide subsidy savings to be used in time for the child's education investment for *mustahik*. As an overview of the detailed procedures in financial management of the CDF pilot-project will refer to the following process and figures:

- *Mustahik* will open accounts and conducted regular savings in Islamic banks for a certain period.
- LAZ-IAB will deposit some funds in the Islamic banks based on *mustahik* account. In this case, relationship between LAZ-IAB and Islamic banks is a partner. LAZ-IAB always got report regarding the transactions and objectives of funds settlement before the set time by the *mustahik* from Islamic banks party.
- Islamic banks will ac as trustee and will invest a total funds (savings + matching funds) under the *Mudzarabah* contract.
- At the end a total number of initial capital plus the return from invested funds by the Islamic banks, will be given to the *mustahik*.
- LAZ-IAB will oversee the expenditure of the funds based on the purpose as

educational investment.

Figure 3 : Partnership Mechanisms of CDF pilot-project BY LAZ-IAB



4. Conclusion

The rise of the inclusive asset building concept as public policy in many developed countries, should open our eyes how the country is very far behind in the context of serving its people. The main issue that always been a tough task in each and every government regime is poverty. This issue is becoming harder to handle because the characteristics of poverty itself is complex in the Indonesian context. Therefore, an effort to the poverty alleviation also requires a combination of various innovation and complete strategy.

Self-help efforts initiated by the Muslims in various social institutions such as LAZ, Islamic microfinance institutions and so on is a first step to solve big problem earlier. However, as part of the self-criticism, LAZ also have to reform their paradigm of the various sides. Focus on strategies and programs that have direct contribute and great leverage for poverty alleviation has become the benchmark of LAZ program. All resources, either internal or external that have been built by LAZ during these days, is a valuable capital to initiate the paradigm shift.

Also, the benefits of institutional characteristics and closely relationship with the

clients (mustahik) could be additional notes. This study suggests for further research could develop a range of models of IAB implementation that suites with LAZ characteristics, such as model of housing assets, agricultural land and so on of course in accordance with shariah requirement. In addition, there are still any bigger opportunities to discuss various model of LAZ partnership with other institutions in terms of the capital and working mechanisms.

References

- Abdul, Hasan, M. Sadeq. (1995). Awqaf, perpetual charity and poverty alleviation. Paper Presented at a conference in Dhaka, 1995.
- Abul Azim Islahi. (2006). *Works on public finance by the sixteenth century Muslim scholar*, Jeddah, KSA: Islamic Economics Research Center, KAU.
- Beverly, Sondra. G. (1997). How Can the Poor Save? Theory and Evidence on Saving in Low-Income Households. Working Paper No. 97-3, Center for Social Development, Washington : University in St. Louis, St.Louis, MO.
- Beverly, Sondra G. and Michael Sherraden. (2001). How People Save and the Role of IDAs. in Boshara, Ray (ed.), *Building Assets: A Report on the Asset-Development and IDA Field*, Washington, DC: Corporation for Enterprise Development, Chapter Five.
- Blank, Rebecca M. (2002). Evaluating Welfare Reform in the United States. *Journal of Economic Literature*, Vol. XL, No. 4, December.
- Boshara, Ray (ed.) (2001). *Building Assets: A Report on the Asset-Development and IDA Field*. Washington, DC: Corporation for Enterprise Development (CFED).
- Carney, S. and W. Gale. (2001). Asset Accumulation among Low-Income Households. in T. Shapiro and E. Wolff (eds.) *Assets for the Poor: The Benefits of Spreading Asset Ownership*, New York: Russell Sage Foundation, pp. 165-205.
- Caskey, John P. (2000). Reaching Out to the Unbanked. Working Paper 00-15, paper presented to the Inclusion in Asset Building: Research and Policy Symposium, St. Louis MO, Center for Social Development, Washington: University in St. Louis.
- Cohen, S. (1994). Consumer Socialization: Children's Saving and Spending. *Childhood Education*, 70 (4), pp. 244-246.
- Department of Economic and Social Affairs. (2009). *Rethinking Poverty : Report on the World Social Situation 2010*. New York, United Nations.

- Duran, Clemente Ruiz. (2002). Savings and Asset-Building in Low Income Groups in Mexico. Paper prepared for the CFED/SEDI IDA Learning Conference in Windsor, Ontario, Canada, April 4-6
- Han, Chang-Keun. (2009). Inclusive Asset-building Policy in Korea, Singapore, and Taiwan: Trends and Policy Implications. Paper presented at Asian Social Protection in Comparative Perspective, Singapore.
- Hassan, M. Kabir. (2003). Financing the Poor: Towards an Islamic Micro-finance. Mimeo, University of New Orleans.
- Hassan, M. Kabir. (2010). An Integrated Poverty Alleviation Model : Combining Zaqat, Awqaf and Microfinance. Paper presented at Seventh International Conference – The Tawhidi Epistemology: Zakat and Waqf Economy, Bangi.
- (2006). The Role of Zakat in Poverty Alleviation in Bangladesh. Paper Presented at a conference in Dhaka, November 24-26.
- Hassan, M. K. and Junayed Masrur Khan. (2007). Zakat, External Debt and Poverty Reduction Strategy in Bangladesh. *Journal of Economic Cooperation*, Volume 28, 4 (2007): 1-38
- Hogarth, Jeanne M. and Jinkook Lee. (2000). Use of Financial Services and the Poor. Working Paper 00-13, Washington: Center for Social Development, University in St. Louis.
- Ismail, Abdul Ghaffar and Possumah, Bayu Taufiq. (2012). Baitul Mal and Legal Constraint: Public Wealth Management in Malaysian Context. *International Journal of Academic Research in Business and Social Sciences* Vol. 2, No. 11 November 2012
- Kahf, Monzer. (1991). Economic Role of State in Islam, Lecture presented on Islamic Economics, Dakka, Bangladesh
- Kelly, Gavin and Julian Le Grand. (2002). The Rise of the ‘Baby Bond’: Where Did It Come From? Paper delivered at an International Conference: Towards New Forms of Welfare, Italy, 26-27 April.
- Midgely, James. (1999). Growth, Redistribution and Welfare: Towards Social Investment. *Social Services Review*, 77(1), pp. 3-21.
- Nares, Peter, Jennifer Robson-Haddow and Barbara Gosse. (2001). The Case for an Asset-Based Approach to Social Policy in Canada. in Sue Regan and Will Paxton (eds.), *Asset-Based Welfare*. London, IPPR: International Experiences.
- OECD. (2003). *Asset Building and The escape from poverty : A New Welfare Policy Debate*. Paris: OECD
- Paxton, Will. (2002). Asset-Based Policy in the United Kingdom. Paper prepared for the 2002 IDA Learning Conference, Windsor, Ontario, Canada.

Sherraden, Michael. (1991). *Assets and the Poor: A New American Welfare Policy*. New York: Armonk and London: M. E. Sharpe, Inc.

Sherraden, Michael. (2001). Singapore Announces “Baby Bonus” and Children’s Development Accounts. A brief commentary paper, St. Louis, Center for Social Development, Washington University in St. Louis.